



ROYALTON TOWNSHIP
BERRIEN COUNTY, MICHIGAN

FINANCIAL REPORT

March 31, 2005

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input checked="" type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name ROYALTON TOWNSHIP	County BERRIEN
Audit Date 3/31/05	Opinion Date 5/12/05	Date Accountant Report Submitted to State: 6/14/05	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☒ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGR).			✓

Certified Public Accountant (Firm Name) GERBEL & COMPANY, P.C.			
Street Address 830 PLEASANT STREET, PO BOX 41		City ST. JOSEPH	State MI
Accountant Signature <i>Ray D. Kempf, CPA</i>		ZIP 49085-0044	Date

ROYALTON TOWNSHIP

FINANCIAL REPORT

March 31, 2005

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ROYALTON TOWNSHIP

**980 Miners Road
St. Joseph, Michigan 49085
(269) 429-2501 * Fax (269) 429-8373
email address: royaltontwp@sbcglobal.net**

Steve Tilly, Supervisor
Rocky Genovese, Clerk
Michael Klug, Treasurer
Robert Basselman, Trustee
William Foust, Trustee

Management Discussion and Analysis

As management of the Royalton Township, we offer the readers of these financial statements this narrative overview and analysis of the financial activities of the Royalton Township for the fiscal year ended March 31, 2005. We encourage readers to consider the overview presented here in conjunction with the additional information that our auditors have provided within this report.

First Year – Governmental Accounting Standards Board Statement No. 34

Royalton Township is implementing the new Governmental Accounting Standards Board Statement No. 34 reporting requirement for the first time this year. Known as GASB 34, the new reporting requirement includes this letter, which should provide a comparative analysis between the current-year and prior-year financial information. However, as this is the first year the Township is implementing GASB 34, the prior-year financial information is not available in the GASB 34 format. The Governmental Accounting Standards Board has recognized this problem, and does not require the Township to restate prior-year financial information for the purposes of providing comparative data in the first year of implementation. Royalton Township will present a comparative analysis of government-wide data in future years when prior-year information is available.

Financial Highlights

- The assets of Royalton Township exceeded its liabilities at the close of the most recent fiscal year by \$11,976,305. Of this amount, \$7,205,837 may be used to meet the ongoing obligations to our citizens and creditors.
- The Township's total net assets increased by \$761,692.
- At the close of the current fiscal year, Royalton Township's Governmental Funds reported combined ending fund balances of \$1,834,429 an increase of \$139,533 in comparison with the prior year. Approximately \$1,833,528 of this total is available for spending at the government's discretion.
- At the end of the current fiscal year, the general fund unreserved fund balance was \$1,074,973 or 46 percent of total general fund expenditures.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Royalton Township's basic financial statements. Royalton Township's basic financial statements include the following three components:

1. Government-Wide Financial Statements
2. Fund Financial Statements
3. Notes to the Financial Statements

In addition to the basic financial statements themselves, this report also contains other supplementary information

1. Government-Wide Financial Statements

The Government-Wide Financial Statements are designed to provide the reader with a broad overview of Royalton Township's finances, in a manner similar to a private-sector business.

- The Statement of Net Assets presents information on all of Royalton Township's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of Royalton Township is improving or deteriorating.
- The Statement of Activities presents information showing how the Township's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods such as unused vacation leave.

Both of these Government-Wide Financial Statements distinguish Township functions, which are principally supported by taxes and intergovernmental revenues from those functions that are intended to recover all or a significant portion of their costs through user fees and charges for services. The governmental activities of Royalton Township include general government, public safety, highways and streets, sanitation, health and welfare, recreation and culture, community and economic development and debt service. The business-type activities of Royalton Township include Water and Sewer operations.

2. Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Royalton Township, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of Royalton Township can be divided into three categories: governmental funds, proprietary fund, and fiduciary fund.

Governmental Funds

Governmental Funds are used to account for essentially the same functions reported as governmental activities in the Government-Wide Financial Statements. However, unlike the Government-Wide Financial Statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as, on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of Governmental Funds is narrower than that of the Government-Wide Financial Statements, it is useful to compare the information presented for Governmental Funds with similar information presented for governmental activities in the Government-Wide Financial Statements. By doing so, the reader may better understand the long-term impact of the Township's near-term financing decisions. Both the Governmental Fund Balance Sheet and the Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balances provide a reconciliation to facilitate this comparison between Governmental Funds and Governmental Activities.

Royalton Township maintains 3 individual governmental funds. Information is presented separately in the Governmental Fund Balance Sheet and in the Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balances for the general fund, the public welfare fund and the inspection fund.

Royalton Township adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided for the general fund and major special revenue funds to demonstrate compliance with this budget.

Proprietary Funds

Enterprise funds are used to report the same functions presented as business-type activities in the Government-Wide Financial Statements. Royalton Township uses an enterprise fund to account for its water and sewer operations.

Fiduciary Funds

Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the Government-Wide Financial Statements because the resources of those funds are not available to support Royalton Township's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

3. Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the Government-Wide and Fund Financial Statements.

Government-Wide Financial Analysis

Net assets may serve over time as a useful indicator of a government's financial position. In the case of Royalton Township, assets exceeded liabilities by \$11,976,305 at the close of the 2004-2005 fiscal year.

Royalton Township uses capital assets to provide services to citizens; and consequently, these assets are not available for future spending. Although Royalton Township's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

**Royalton Township
Net Assets**

	<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Total</u>
Current and other assets	\$ 1,876,120	\$ 5,968,949	\$ 7,845,069
Capital assets	<u>1,162,331</u>	<u>8,934,354</u>	<u>10,096,685</u>
Total Assets	<u>\$ 3,038,451</u>	<u>\$ 14,903,303</u>	<u>\$ 17,941,754</u>
Long-term liabilities outstanding	\$ 41,103	\$ 5,730,000	\$ 5,771,103
Other liabilities	<u>41,691</u>	<u>152,655</u>	<u>194,346</u>
Total Liabilities	<u>\$ 82,794</u>	<u>\$ 5,882,655</u>	<u>\$ 8,965,449</u>
Invested in capital assets, net of related debt	\$ 1,121,228	\$ 3,202,344	\$ 4,325,572
Restricted	901	443,995	444,896
Unrestricted	<u>1,833,528</u>	<u>5,372,309</u>	<u>7,205,837</u>
Total Net Assets	<u>\$ 2,955,657</u>	<u>\$ 9,020,648</u>	<u>\$ 11,976,305</u>

A portion of Royalton Township's net assets (4%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets (\$7,205,837) may be used to meet the government's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, Royalton Township is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities.

**Royalton Township
Changes in Net Assets**

	<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Total</u>
Revenues			
<i>Program Revenues</i>			
Charges for services	\$ 337,990	\$ 813,767	\$ 1,151,757
Grants and contributions	360,815		360,815
<i>General Revenues</i>			
Property taxes	300,675	-	300,675
Interest earned	16,958	242,990	259,948
Insurance reimbursements	12,925	12,226	25,151
Total Revenues	\$ 1,029,363	\$ 1,068,983	\$ 2,098,346
Expenses			
Legislative	\$ 6,051	\$ -	\$ 6,051
General government	365,367	-	365,367
Public safety	316,213	-	316,213
Public works	29,080	-	29,080
Recreation and cultural	43,379	-	43,379
Interest on long-term debt	2,459	-	2,459
Public Utility Fund	-	574,105	574,105
Total Expenses	\$ 762,549	\$ 574,105	\$ 1,336,654
Change in Net Assets	\$ 266,814	\$ 494,878	\$ 761,692
Net Assets Beginning of the Year	2,688,843	8,525,770	11,214,613
Net Assets End of the Year	\$ 2,955,657	\$ 9,383,136	\$ 11,976,305

Governmental Activities

Governmental Activities increased the Royalton Township's net assets by \$266,814, accounting for 35% of the total growth in the net assets of Royalton Township. Grants and contributions were \$360,815 or 35% of the total governmental revenues. Charges for services were \$337,990 or 33% of the total governmental revenues. The remaining 32% is composed of property taxes, interest income and insurance reimbursements. Public safety expenditures totaled \$316,213 or 41% of the governmental expenses. General government and recreation and cultural expenditures totaled 54% of the governmental expenses.

Business-Type Activities

Business-type Activities increased Royalton Township's net assets by \$494,878, accounting for 65% of the total growth in the net assets. Charges for services were \$813,767 or 76% of the total business-type revenues. The remaining 24% is composed interest income and insurance reimbursements.

Financial Analysis of Royalton Township's Funds

As noted earlier, Royalton Township uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds

The focus of Royalton Township's Governmental Funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing Royalton Township's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year Royalton Township's Governmental Funds reported combined ending fund balances of \$1,834,429, an increase of \$139,533 in comparison with the prior year. Approximately 99% of this total amount constitutes unreserved fund balance, which is available for spending at the government's discretion. The remainder of fund balance is reserved to indicate that it is not available for new spending because it has already been committed to pay for future cemetery care.

The General Fund is the chief operating fund of Royalton Township. At the end of the current fiscal year, unreserved fund balance of the general fund was \$1,074,973. The fund balance of Royalton Township has increased by \$44,895 from the previous year.

Proprietary Funds

Royalton Township's proprietary fund provides the same type of information found in the Government-Wide Financial Statements, but in more detail.

Unrestricted net assets of the Public Utility Fund at the end of the year amounted to \$5,372,309. Water activity increased net assets by \$216,311; sewer activity increased net assets by \$278,567.

General Fund Budgetary Highlights

Differences between the original budget and the final amended budget were relatively minor and resulted in a net decrease in budgeted expenditures of \$38,570 and can be briefly summarized as follows:

- \$2,080 increase allocated to general government activities
- \$17,950 decrease allocated to highways and streets activities
- \$22,700 decrease in recreation and cultural activities

Capital Asset and Debt Administration

Royalton Township's investment in capital assets for its governmental and business-type activities as of March 31, 2005 amounts to \$10,116,686 (net of depreciation). This investment in capital assets includes land, buildings and improvements, furniture and equipment, and utility systems.

Major capital assets events during the current fiscal year included the following:

- Construction continued on water and sewer projects.
- Purchase of a new pick up truck.

Long-Term Debt

At the end of the current fiscal year, the Royalton Township had total debt outstanding of \$5,771,103.

State statutes limit the amount of general obligation bond debt governmental entities may issue to 10% of its total state equalized valuation and the amount of general obligation installment note debt to 1.25% of its total state equalized valuation. The current debt limitation for Royalton Township is \$20,068,680 for bond debt and \$2,508,585 for note debt, which is significantly in excess of the Royalton Township's outstanding general obligation debt.

Next Year's Budget and Rates

Royalton Township anticipates expenditures over revenues in the general fund will result in a \$109,153 decrease in fund balance.

Requests for Information

This financial report is designed to provide a general overview of Royalton Township's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Royalton Township, 980 Miners Road, St. Joseph, Michigan 49085.

**ROYALTON TOWNSHIP
TOWNSHIP BOARD
March 31, 2005**

Steve Tilly	Supervisor
Rocco Genovese	Clerk
Michael Klug	Treasurer
William Faust	Trustee
Robert Basselman	Trustee

Gerbel & Company, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

Fifth Third Bank Building ■ 4th Floor ■ 830 Pleasant Street ■ P.O. Box 44 ■ St. Joseph, Michigan 49085-0044

May 12, 2005

INDEPENDENT AUDITOR'S REPORT

To the Township Board
Royalton Township
St. Joseph, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of Royalton Township, as of and for the year ended March 31, 2005, which collectively comprise the Townships, basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Township's management. Our responsibility is to express an opinion of these financial statements based on our audit.

We concluded our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test a basis, evidence supporting the amounts and disclosures on the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the respective changes in financial position and cash flows, were applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis information on pages I through VII, is not required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions in the financial statements that collectively comprise Royalton Township's basic financial statements. The supplementary information is presented for the purposes of additional analysis and is not a required part of the basic financial statements. The supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Gerbel & Company, P.C.

Right. On time.

ROYALTON TOWNSHIP
Statement of Net Assets
March 31, 2005

	Primary Government		
	Governmental Activities	Business-type Activities	Total
Assets			
Cash and cash equivalents	\$ 1,780,660	\$ 1,717,085	\$ 3,497,745
Receivables	18,426	41,992	60,418
Due from other funds	51,634	-	51,634
Prepaid expenses	25,400	-	25,400
Bond cost (net of accumulated amortization)	-	153,629	153,629
Bond discount (net of accumulated amortization)	-	78,813	78,813
Special assessment receivable	-	3,977,430	3,977,430
Capital assets (net of related depreciation):			
Land	213,253	-	213,253
Construction in process	-	2,111,686	2,111,686
Buildings	573,006	-	573,006
Vehicles	244,155	8,653	252,808
Equipment	131,917	-	131,917
Utility systems	-	6,814,015	6,814,015
Total Assets	\$ 3,038,451	\$ 14,903,303	\$ 17,941,754
Liabilities			
Payroll liabilities	\$ 220	\$ -	\$ 220
Due to other funds	41,471	8,409	49,880
Due to other governments	-	42,221	42,221
Accrued interest	-	102,025	102,025
Noncurrent liabilities:			
Due within one year	41,103	700,000	741,103
Due in more than one year	-	5,030,000	5,030,000
Total Liabilities	\$ 82,794	\$ 5,882,655	\$ 5,965,449
Net Assets			
Invested in capital assets, net of related debt	\$ 1,121,228	\$ 3,204,344	\$ 4,325,572
Restricted for cemetery	901	-	901
Restricted for construction	-	443,995	443,995
Unrestricted	1,833,528	5,372,309	7,205,837
TOTAL NET ASSETS	\$ 2,955,657	\$ 9,020,648	\$ 11,976,305

ROYALTON TOWNSHIP
Statement of Activities
For the Year Ended March 31, 2005

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
Primary Government:				
Governmental Activities:				
Legislative	\$ 6,051	\$ -	\$ -	\$ -
General government	365,367	77,101	263,924	-
Public safety	316,213	260,889	-	96,891
Public works	29,080	-	-	-
Recreation and cultural	43,379	-	-	-
Interest on long-term debt	2,459	-	-	-
Total Governmental Activities	\$ 762,549	\$ 337,990	\$ 263,924	\$ 96,891
Business-type Activities:				
Public Utility Fund	\$ 574,105	\$ 813,767	\$ -	\$ -
Total Business-type Activities	\$ 574,105	\$ 813,767	\$ -	\$ -
Total Primary Government	\$ 1,336,654	\$ 1,151,757	\$ 263,924	\$ 96,891

General revenues:

Property taxes

Interest

Insurance Reimbursements

Total General Revenues

Change in Net Assets

Net Assets - Beginning of Year

NET ASSETS - END OF YEAR

The accompanying notes are an integral part of these financial statements.

**Net (Expense) Revenue and
Changes in Net Assets
Primary Government**

<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
\$ (6,051)	\$ -	\$ (6,051)
(24,342)	-	(24,342)
41,567	-	41,567
(29,080)	-	(29,080)
(43,379)	-	(43,379)
<u>(2,459)</u>	<u>-</u>	<u>(2,459)</u>
 \$ (63,744)	 \$ -	 \$ (63,744)
 \$ -	 \$ 239,662	 \$ 239,662
 \$ -	 \$ 239,662	 \$ 239,662
 \$ (63,744)	 \$ 239,662	 \$ 175,918
 \$ 300,675	 \$ -	 \$ 300,675
16,958	242,990	259,948
<u>12,925</u>	<u>12,226</u>	<u>25,151</u>
 \$ 330,558	 \$ 255,216	 \$ 585,774
 \$ 266,814	 \$ 494,878	 \$ 761,692
<u>2,688,843</u>	<u>8,525,770</u>	<u>11,214,613</u>
 \$ 2,955,657	 \$ 9,020,648	 \$ 11,976,305

**ROYALTON TOWNSHIP
GOVERNMENTAL FUNDS
Balance Sheet
March 31, 2005**

	<u>General Fund</u>	<u>Public Welfare Millage Fund</u>	<u>Inspection Fund</u>	<u>Total Governmental Funds</u>
Assets				
Current Assets:				
Cash and cash equivalents	\$ 847,714	\$ 400,529	\$ 374,471	\$ 1,622,714
Certificates of deposit	157,045	-	-	157,045
Restricted cash for cemetery	901	-	-	901
Taxes receivable	9,215	9,211	-	18,426
Due from other funds	51,634	-	-	51,634
Prepaid expense	9,585	15,815	-	25,400
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Current Assets	\$ 1,076,094	\$ 425,555	\$ 374,471	\$ 1,876,120
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
TOTAL ASSETS	\$ 1,076,094	\$ 425,555	\$ 374,471	\$ 1,876,120
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Liabilities and Fund Balances				
Current Liabilities:				
Accrued liabilities	\$ 220	\$ -	\$ -	\$ 220
Due to other funds	-	30,889	10,582	41,471
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Current Liabilities	\$ 220	\$ 30,889	\$ 10,582	\$ 41,691
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Liabilities	\$ 220	\$ 30,889	\$ 10,582	\$ 41,691
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Fund Balances:				
Reserved for cemetery	\$ 901	\$ -	\$ -	\$ 901
Unreserved	1,074,973	394,666	363,889	1,833,528
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Fund Balances	\$ 1,075,874	\$ 394,666	\$ 363,889	\$ 1,834,429
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
TOTAL LIABILITIES AND FUND BALANCES	\$ 1,076,094	\$ 425,555	\$ 374,471	\$ 1,876,120
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

The accompanying notes are an integral part of these financial statements.

ROYALTON TOWNSHIP
Reconciliation of the Balance Sheet of Governmental Funds
To the Statement of Net Assets
For the Year Ended March 31, 2005

Fund balances of governmental funds.	\$ 1,834,429
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Amounts reported for *governmental activities* in the statement of net assets are different because:

Governmental funds report capital outlay as expenditures, but they are recorded as capital assets in the Government-Wide statements and depreciated over their useful lives.	1,162,331
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Long-term liabilities are not due and payable in the current period nor are they reflected as reductions to debt in the funds.	<u>(41,103)</u>
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Net assets of governmental activities	<u>\$ 2,955,657</u>
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**ROYALTON TOWNSHIP
GOVERNMENTAL FUNDS
Statement of Revenues, Expenditures, and
Changes in Fund Balances
For the Year Ended March 31, 2005**

	<u>General Fund</u>	<u>Public Welfare Millage Fund</u>	<u>Inspection Fund</u>	<u>Total Governmental Funds</u>
Revenues:				
Taxes	\$ 132,045	\$ 168,630	\$ -	\$ 300,675
Federal revenues	-	96,891	-	96,891
State revenues	263,924	-	-	263,924
Collection fees	42,990	-	-	42,990
Permits	-	-	217,899	217,899
Rents	11,475	-	-	11,475
Cemetery revenue	11,147	-	-	11,147
Interest	12,794	2,076	2,088	16,958
Other	63,340	-	-	63,340
Total Revenues	<u>\$ 537,715</u>	<u>\$ 267,597</u>	<u>\$ 219,987</u>	<u>\$ 1,025,299</u>
Expenditures:				
Legislative	\$ 6,051	\$ -	\$ -	\$ 6,051
General government	390,581	-	-	390,581
Public safety	3,278	79,780	144,927	227,985
Public works	29,080	-	-	29,080
Recreation and cultural	8,132	34,992	-	43,124
Capital outlay	10,033	136,074	1,237	147,344
Debt service:				
Principal retirement	43,206	-	-	43,206
Interest	2,459	-	-	2,459
Total Expenditures	<u>\$ 492,820</u>	<u>\$ 250,846</u>	<u>\$ 146,164</u>	<u>\$ 889,830</u>
Revenues Over (Under) Expenditures	<u>\$ 44,895</u>	<u>\$ 16,751</u>	<u>\$ 73,823</u>	<u>\$ 135,469</u>
Other Financing Sources (Uses):				
Proceeds from sale of assets	\$ -	\$ 4,064	\$ -	\$ 4,064
Net Change in Fund Balances	<u>\$ 44,895</u>	<u>\$ 20,815</u>	<u>\$ 73,823</u>	<u>\$ 139,533</u>
Fund Balances - Beginning of Year	<u>1,030,979</u>	<u>373,851</u>	<u>290,066</u>	<u>1,694,896</u>
FUND BALANCES - END OF YEAR	<u>\$ 1,075,874</u>	<u>\$ 394,666</u>	<u>\$ 363,889</u>	<u>\$ 1,834,429</u>

The accompanying notes are an integral part of these financial statements.

ROYALTON TOWNSHIP
Reconciliation of the Statement of Revenues,
Expenditures, and Changes in Fund Balances of
Governmental Funds to the Statement of Activities
For the Year Ended March 31, 2005

Net change in fund balances - total governmental funds	\$ 139,533
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Amounts reported for *governmental activities* in the statement of activities are different because:

Government funds report capital outlay as expenditures, but they are recorded as capital assets in the Government-Wide statements and depreciated over their useful lives.	65,453
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Long-term liabilities are not due and payable in the current period nor are they reflected as reductions to debt in the funds.	<u>61,828</u>
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Changes in net assets of governmental activities	<u>\$ 266,814</u>
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**ROYALTON TOWNSHIP
GENERAL FUND
Statement of Revenues, Expenditures, and
Changes in Fund Balances - Budget and Actual
For the Year Ended March 31, 2005**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>Final Budget</u>
				<u>Positive</u>
				<u>(Negative)</u>
Revenues:				
Taxes	\$ 135,000	\$ 121,500	\$ 132,045	\$ 10,545
State revenues	261,442	261,442	263,924	2,482
Collection fees	38,350	76,500	42,990	(33,510)
Rents	2,400	7,500	11,475	3,975
Cemetery revenue	5,500	10,500	11,147	647
Interest	12,000	12,000	12,794	794
Other	73,100	50,600	63,340	12,740
	<u>\$ 527,792</u>	<u>\$ 540,042</u>	<u>\$ 537,715</u>	<u>\$ (2,327)</u>
Total Revenues				
Expenditures:				
Legislative	\$ 5,900	\$ 5,900	\$ 6,051	\$ (151)
General government	392,825	399,905	390,581	9,324
Public safety	3,815	3,815	3,278	537
Public works	33,450	15,500	29,080	(13,580)
Recreation and cultural	29,200	9,166	8,132	1,034
Capital outlay	28,000	20,334	10,033	10,301
Debt service:				
Principal retirement	40,000	40,000	43,206	(3,206)
Interest	4,100	4,100	2,459	1,641
	<u>\$ 537,290</u>	<u>\$ 498,720</u>	<u>\$ 492,820</u>	<u>\$ 5,900</u>
Total Expenditures				
Net Change in Fund Balances	<u>\$ (9,498)</u>	<u>\$ 41,322</u>	<u>\$ 44,895</u>	<u>\$ 3,573</u>
Fund Balances - Beginning of Year	<u>1,030,979</u>	<u>1,030,979</u>	<u>1,030,979</u>	<u>-</u>
FUND BALANCES - END OF YEAR	<u>\$ 1,021,481</u>	<u>\$ 1,072,301</u>	<u>\$ 1,075,874</u>	<u>\$ 3,573</u>

**ROYALTON TOWNSHIP
PUBLIC WELFARE MILLAGE FUND
Statement of Revenues, Expenditures, and
Changes in Fund Balances - Budget and Actual
For the Year Ended March 31, 2005**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>Final Budget</u>
				<u>Positive</u>
				<u>(Negative)</u>
Revenues:				
Taxes			\$ 168,630	
Federal revenues			96,891	
Interest			<u>2,076</u>	
Total Revenues	\$ 161,429	\$ 253,500	\$ 267,597	\$ 14,097
Expenditures:				
Public safety			\$ 79,780	
Recreation and cultural			34,992	
Capital outlay			<u>136,074</u>	
Total Expenditures	\$ 165,142	\$ 255,000	\$ 250,846	\$ 4,154
Revenues Over (Under) Expenditures	\$ (3,713)	\$ (1,500)	\$ 16,751	\$ 18,251
Other Financing Sources (Uses):				
Proceeds from sale of assets	-	-	<u>4,064</u>	<u>4,064</u>
Net Change in Fund Balances	\$ (3,713)	\$ (1,500)	\$ 20,815	\$ 22,315
Fund Balances - Beginning of Year	<u>373,851</u>	<u>373,851</u>	<u>373,851</u>	<u>-</u>
FUND BALANCES - END OF YEAR	<u>\$ 370,138</u>	<u>\$ 372,351</u>	<u>\$ 394,666</u>	<u>\$ 22,315</u>

**ROYALTON TOWNSHIP
INSPECTION FUND
Statement of Revenues, Expenditures, and
Changes in Fund Balances - Budget and Actual
For the Year Ended March 31, 2005**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>Final Budget</u>
				<u>Positive</u>
				<u>(Negative)</u>
Revenues:				
Permits			\$ 217,899	
Interest			<u>2,088</u>	
Total Revenues	<u>\$ 120,000</u>	<u>\$ 188,500</u>	<u>\$ 219,987</u>	<u>\$ 31,487</u>
Expenditures:				
Public safety			\$ 144,927	
Capital outlay			<u>1,237</u>	
Total Expenditures	<u>\$ 139,300</u>	<u>\$ 129,000</u>	<u>\$ 146,164</u>	<u>\$ (17,164)</u>
Net Change in Fund Balances	<u>\$ (19,300)</u>	<u>\$ 59,500</u>	<u>\$ 73,823</u>	<u>\$ 14,323</u>
Fund Balances - Beginning of Year	<u>290,066</u>	<u>290,066</u>	<u>290,066</u>	<u>-</u>
FUND BALANCES - END OF YEAR	<u>\$ 270,766</u>	<u>\$ 349,566</u>	<u>\$ 363,889</u>	<u>\$ 14,323</u>

**ROYALTON TOWNSHIP
PROPRIETARY FUND
PUBLIC UTILITY FUND
Statement of Net Assets
For the Year Ended March 31, 2005**

Assets

Current Assets:

Cash and cash equivalents	\$ 1,085,636
Certificates of deposit	187,454
Delinquent special assessment receivable	<u>41,992</u>

Total Current Assets \$ 1,315,082

Restricted Assets:

Cash and cash equivalents	<u>\$ 443,995</u>
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Noncurrent Assets:

Plant, property, and equipment	\$ 9,073,728
Construction in process	2,111,686
Special assessment receivable	3,977,430
Sewer bond cost, net of \$56,146 accumulated amortization	5,292
Water bond cost, net of \$56,659 accumulated amortization	148,337
Sewer bond discount, net of \$41,458 accumulated amortization	4,106
Water bond discount, net of \$27,376 accumulated amortization	74,707
Accumulated depreciation	<u>(2,251,060)</u>

Total Noncurrent Assets \$ 13,144,226

TOTAL ASSETS \$ 14,903,303

Liabilities and Net Assets

Current Liabilities:

Current portion of bonds payable	\$ 675,000
Current portion of note payable	25,000
Accrued interest	102,025
Due to other governments	42,221
Due to other funds	<u>8,409</u>

Total Current Liabilities \$ 852,655

Long-Term Liabilities:

Bonds payable, net of current portion	\$ 4,955,000
Note payable, net of current portion	<u>75,000</u>

Total Long-Term Liabilities \$ 5,030,000

Total Liabilities \$ 5,882,655

Net Assets:

Invested in capital assets, net of related debt	\$ 3,204,344
Restricted for construction	443,995
Unrestricted	<u>5,372,309</u>

TOTAL NET ASSETS \$ 9,020,648

**ROYALTON TOWNSHIP
PROPRIETARY FUND
PUBLIC UTILITY FUND
Statement of Revenues, Expenses, and
Changes in Net Assets
For the Year Ended March 31, 2005**

Operating Revenues:	
Changes for services	\$ 799,292
Other	<u>26,701</u>
Total Operating Revenues	\$ <u>825,993</u>
Operating Expenses:	
Sewer treatment charges	\$ 153,397
Professional services	18,903
Salary and wages	15,660
Payroll taxes	1,198
Depreciation and amortization	226,771
Utilities	18,401
Supplies	7,530
Repair and maintenance	18,747
Contribution to LMSWSTA	6,679
Miscellaneous	<u>6,676</u>
Total Operating Expenses	\$ <u>473,962</u>
Operating Income	\$ <u>352,031</u>
Nonoperating Revenues (Expenses):	
Interest income	\$ 242,990
Interest expense	<u>(244,150)</u>
Total Nonoperating Revenues (Expenses)	\$ <u>(1,160)</u>
Net Income	\$ 350,871
Depreciation on assets financed by contributed capital	<u>144,007</u>
Change in Net Assets	\$ 494,878
Total Net Assets - Beginning of Year	<u>8,525,770</u>
TOTAL NET ASSETS - END OF YEAR	\$ <u>9,020,648</u>

**ROYALTON TOWNSHIP
PROPRIETARY FUND
Statement of Cash Flows
For the Year Ended March 31, 2005**

Cash Flows From Operating Activities:

Cash receipts from customers	\$ 1,346,186
Other payments	(18,511)
Payments to employees	(16,858)
Payments to suppliers	<u>(209,660)</u>

Net cash provided by operating activities \$ 1,101,157

Cash Flows From Capital and Related Financing Activities:

Interest paid on capital debt	\$ (243,353)
Principal paid on capital debt	(675,000)
Purchases of capital assets	<u>(2,061,717)</u>

Net cash used by capital and related financing activities \$ (2,980,070)

Cash Flows From Investing Activities:

Special assessment interest received	\$ 206,556
Interest and dividends received	<u>36,434</u>

Net cash provided by investing activities \$ 242,990

Net decrease in cash and cash equivalents \$ (1,635,923)

Balances - Beginning of Year 3,353,007

BALANCES - END OF YEAR \$ 1,717,084

**Reconciliation of operating income to net cash
provided by operating activities:**

Operating income \$ 352,031

Adjustments to reconcile operating income to net cash
provided by operating activities:

Depreciation expense	\$ 226,770
(Increase) decrease in:	
Accounts receivable	520,193
Increase (decrease) in:	
Accounts payable	2,527
Due to other funds	<u>(364)</u>

Total Adjustments \$ 749,126

Net cash provided by operating activities \$ 1,101,157

**ROYALTON TOWNSHIP
FIDUCIARY FUND
CURRENT TAX FUND
Statement of Fiduciary Net Assets
For the Year Ended March 31, 2005**

Assets	
Cash and cash equivalents	\$ <u>1,754</u>
TOTAL ASSETS	\$ <u>1,754</u>
Liabilities	
Due to other funds	\$ <u>1,754</u>
TOTAL LIABILITIES	\$ <u>1,754</u>

ROYALTON TOWNSHIP
Notes to Financial Statements
March 31, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting methods and procedures adopted by Royalton Township, Michigan, conform to accounting principles generally accepted in the United States of America as applied to governmental entities. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant government accounting policies are described below:

A. Reporting Entity

In evaluating how to define the Township's reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in generally accepted accounting principles (GAAP). The basic - but not the only - criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations and accountability of fiscal matters. The other criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the Township is able to exercise oversight responsibilities. Based upon the application of these criteria, the Township does not have any component units.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e. the statements of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government of the Township. For the most part, the effect of interfund activities has been removed from these statements. Governmental activities, which are normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for services.

The statement of activities demonstrates the degree to which the direct expenses of a function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual funds are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting, and Financial Statements

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. In the individual fund statements and schedules, the proprietary funds and fiduciary fund financial statements are also reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

ROYALTON TOWNSHIP
Notes to Financial Statements
March 31, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

C. Measurement Focus, Basis of Accounting, and Financial Statements - Continued

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. The Township considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures and compensated absences, and claims and judgments are recorded only when payment is due.

Property taxes, franchise fees, licenses and interest associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the Township.

Royalton Township reports the following major governmental funds:

The **General Fund** is the Township's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The **Public Welfare Millage Fund** is used to account for the Township's fire department as well as payments for library and ambulance service.

The **Inspection Fund** is used to account for the activities of the inspection department.

Royalton Township reports the following major proprietary fund:

The **Public Utility Fund** accounts for the activities related to the Township's water production, purification, distribution, billing, sanitary collection system and waste water treatment.

Additionally, Royalton Township reports the following fund type:

The **Agency Funds** are used to collect and distribute State of Michigan, Berrien County, Lake Michigan College, Berrien Springs Public Schools, St. Joseph Public Schools, Lakeshore Public Schools, and Berrien County Intermediate School District property tax monies.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The Township has elected not to follow subsequent private-sector guidance.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. All taxes are reported as general taxes.

ROYALTON TOWNSHIP
Notes to Financial Statements
March 31, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

C. Measurement Focus, Basis of Accounting, and Financial Statements - Continued

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Operating expense for proprietary funds includes the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the Township's policy to use restricted resources first. Unrestricted resources are used as they are needed.

D. Budgetary Data

At a March meeting the Manager submits to the Township Board a proposed operating budget for the calendar year. The operating budget includes proposed expenditures and the means of financing them for all governmental and proprietary fund types. Public hearings are then conducted at the Township Hall to obtain taxpayer comments. Prior to March 31, the budget is legally enacted on a summary budget basis through passage of a resolution.

E. Capital Assets

Capital assets, which include property, plant, and equipment, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by Royalton Township as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years.

All capital assets are valued at historical cost or estimated historical cost if actual cost is not available. Donated capital assets are recorded at estimated fair market value on the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the assets or materially extend assets lives are not capitalized.

Depreciation of all exhaustible capital assets used is charged as an expense against their operations in government-wide statements and all proprietary financial statements. Accumulated depreciation is reported on government-wide and proprietary statements of net assets. The straight-line depreciation method is applied over the estimated useful lives of fixed assets.

The straight-line depreciation method is used for all depreciable capital assets. The estimated useful lives for capital assets are displayed in the table below:

<u>Asset Class</u>	<u>Depreciable Life</u>
Land	N/A
Buildings	40 years
Equipment	5-10 years
Vehicles	5-15 years
Utility Systems	39-40 years

ROYALTON TOWNSHIP
Notes to Financial Statements
March 31, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

F. Long-Term Liabilities

In the government-wide financial statements and proprietary fund in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities and business-type activities or proprietary fund statements of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using straight-line amortization. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources. Bond discounts are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt received, are reported as debt service.

G. Property Taxes

Township property taxes are levied on December 1 and are payable without penalty through February 15. The Township bills and collects its own property taxes and also taxes for the County and several school districts within its jurisdiction. Collections and remittances of all taxes are accounted for in the Current Tax Agency Fund.

H. Sanitation and Water Billings

The Township has a contract with the City of St. Joseph for Sanitation Supply System and Water Supply System billings. The City collects the billings and remits according to the Township's portion according to the contract.

I. Investments and Cash Equivalents

Investments are stated at cost or amortized cost, which approximates market.

All highly liquid investments (including restricted assets) with a maturity of three months or less when purchased are defined as cash equivalents.

J. Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions that affect the reporting of certain assets, liabilities, revenues, and expenditures. Actual results may differ from estimated amounts.

NOTE 2 - CASH DEPOSITS

The Township's deposits, which include cash and certificates of deposit, are carried at cost. Act 217, PA 1982, authorizes the Township to deposit and invest in the accounts of Federally insured banks, insured credit unions, savings and loan associations and bonds and other direct obligations of the associations and bonds and other direct obligations of the United States. Michigan law prohibits security in the form of collateral, surety bond, or other forms for the deposit of public money. An Attorney General's opinion states that public funds may not be deposited in financial institutions that do not have a branch location in Michigan. The Township's deposits are in accordance with statutory authority at March 31, 2005.

ROYALTON TOWNSHIP
Notes to Financial Statements
March 31, 2005

NOTE 2 - CASH DEPOSITS - Continued

Year-End Deposits

For the bank deposits and certificates of deposit, \$100,000 was covered by federal depository insurance and \$2,984,600 was uninsured. The bank balances are categorized to give an indication of the level of risk assumed by the entity at year-end.

	<u>Carrying Amount</u>	<u>Bank Balances</u>
Primary Government		
Amount insured by the FDIC	\$ 98,245	\$ 98,245
Uninsured	<u>2,955,505</u>	<u>2,984,600</u>
Total Primary Government	<u>\$ 3,053,750</u>	<u>\$ 3,082,845</u>
Fiduciary Funds		
Amount insured by the FDIC	\$ 1,755	\$ 1,755
Uninsured	<u>-</u>	<u>-</u>
Total Fiduciary Funds	<u>\$ 1,755</u>	<u>\$ 1,755</u>
Total Reporting Entity	<u>\$ 3,055,505</u>	<u>\$ 3,084,600</u>

NOTE 3 - JOINT VENTURE

Lake Michigan Shoreline Water & Sewage Treatment Authority

On July 18, 1964, the Townships of St. Joseph and Lincoln, and Villages of Shoreham and Stevensville formed a joint venture to acquire, improve, extend and operate a water supply and sewage disposal system. In January 2000, Royalton Township joined the Authority.

The governing body consists of eight members. Each township selects two members and each village selects one member. From these eight members a Chairman, Vice-Chairman, Secretary and Treasurer are selected.

An annual budget is submitted to and approved by the Authority. Once this has been completed, the budget is reviewed by each respective municipality for approval.

The member contribution percentages for the year ended March 31, 2005, are as follows: Royalton Township - 8%, Lincoln Township - 57%, and St. Joseph Charter Township - 35%.

The following is audited financial information from the Lake Michigan Shoreline Water & Sewage Treatment Authority for the year ended June 30, 2004. A copy of the audited financial report is available for review at the Township office.

Assets	\$ 135,599
Liabilities	37,685
Fund Equity	97,914
Revenues	846,039
Expenditures	987,513
Increase in Fund Equity	(141,474)

ROYALTON TOWNSHIP
Notes to Financial Statements
March 31, 2005

NOTE 4 - CAPITAL ASSETS

Capital assets activities for the year ended March 31, 2005 were as follows:

	<u>Balance</u> <u>April 1, 2004</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>March 31, 2005</u>
Governmental Activities				
Land	\$ 213,253	\$ -	\$ -	\$ 213,253
Buildings	\$ 736,645	\$ -	\$ -	\$ 736,645
Equipment	67,750	129,840	(10,000)	187,590
Vehicles	475,519	20,000	-	495,519
Subtotal	\$ 1,279,914	\$ 149,840	\$ (10,000)	\$ 1,419,754
Less: Accumulated Depreciation	(386,285)	(64,390)	10,000	(440,675)
Total Capital Assets Other Than Land	\$ 893,629	\$ 85,450	\$ -	\$ 979,079
 Business Activities				
Construction in process	\$ 105,000	\$ 2,006,686	\$ -	\$ 2,111,686
Vehicles	\$ 12,059	\$ 10,817	\$ -	\$ 22,876
Utility Systems	9,006,637	44,215	-	9,050,852
Subtotal	\$ 9,018,696	\$ 55,032	\$ -	\$ 9,073,728
Less: Accumulated Depreciation	(2,048,317)	(202,743)	-	(2,251,060)
Total Capital Assets Other Than Construction in Process	\$ 6,970,379	\$ (147,711)	\$ -	\$ 6,822,668

ROYALTON TOWNSHIP
Notes to Financial Statements
March 31, 2005

NOTE 4 - CAPITAL ASSETS - Continued

Depreciation expense was charged in the following functions in the statement of activities:

Governmental functions:

General government	\$ 20,186
Public safety	43,949
Recreation and cultural	<u>255</u>
Total	<u>\$ 64,390</u>

Business-type functions:

Public Utility Fund	<u>\$ 202,743</u>
Total	<u>\$ 202,743</u>

NOTE 5 - LONG-TERM DEBT

The following is a summary of long-term debt transactions of the primary government for the year ended March 31, 2005:

	<u>Notes Payable</u>	<u>General Obligation Bonds</u>	<u>Total</u>
Balance, April 1, 2004	\$ 227,931	\$ 6,280,000	\$ 6,507,931
New debt	-	-	-
Debt redeemed	<u>(86,828)</u>	<u>(650,000)</u>	<u>(736,828)</u>
Balance, March 31, 2005	<u>\$ 141,103</u>	<u>\$ 5,630,000</u>	<u>\$ 5,771,103</u>

ROYALTON TOWNSHIP
Notes to Financial Statements
March 31, 2005

NOTE 5 - LONG-TERM DEBT - Continued

Long-term debt at March 31, 2005 is comprised of the following individual issues:

	<u>Balance</u> <u>April 1,</u> <u>2004</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>March 31,</u> <u>2005</u>	<u>Due Within</u> <u>One Year</u>
Business Activities					
Berrien County Sewer Disposal System No. 20, Refunding Bonds. Principal is due in annual installments of \$415,000 - \$500,000 through May 1, 2006; interest rates varies from 4.75% - 4.9%	\$ 1,415,000	\$ -	\$ 500,000	\$ 915,000	\$ 500,000
Berrien County Water Supply System No. 25 Bonds, Series 2003. Principal is due in annual installments of \$25,000 - \$200,000 through May 1, 2023; interest rate varies from 2.0% - 4.45%	2,600,000	-	25,000	2,575,000	50,000
Berrien County Water Supply System No. 20 Bonds, Series 1994. Principal is due in annual installments of \$50,000 - \$95,000 through May 1, 2014; interest rate varies from 5.4% - 6%.	745,000	-	50,000	695,000	50,000
Berrien County Water Supply System No. 23, Project Bonds. Principal is due in annual installments of \$75,000 - \$145,000 beginning May 1, 1999 through May 1, 2018; interest rate varies from 4.3% - 4.75%	<u>1,520,000</u>	<u>-</u>	<u>75,000</u>	<u>1,445,000</u>	<u>75,000</u>
Total General Obligation Bonds	\$ 6,280,000	\$ -	\$ 650,000	\$ 5,630,000	\$ 675,000

ROYALTON TOWNSHIP
Notes to Financial Statements
March 31, 2005

NOTE 5 - LONG-TERM DEBT - Continued

Business Activities - Continued	Balance April 1, 2004	Additions	Reductions	Balance March 31, 2005	Due Within One Year
<p>The repayment of these general obligation bonds is guaranteed by the Township and Berrien County. The bonds were issued by Berrien County and the Township pays the County the current maturities under a contract. The bonds represent the financing of public improvements that benefit specific districts; these districts are assessed, at least in part, for the cost of the improvements. At March 31, 2005, there is \$3,977,430 of special assessments receivable in the future; the amount of delinquent receivables at March 31, 2005 is not significant.</p>					
<p>The Township agrees to reimburse Lincoln Township for the oversized water transmission mains in the amount of \$250,000 paid in annual installments of \$25,000 beginning June 1, 1999 through June 1, 2008; no interest is being charged.</p>					
	125,000	-	25,000	100,000	25,000
Total Business Activities	\$ 6,405,000	\$ -	\$ 675,000	\$ 5,730,000	\$ 700,000
<p>Governmental Activities - Primary Activities</p>					
<p>An October 10, 2000, installment note to Fifth Third Bank in the amount of \$200,000 is due in monthly installments of \$3,805 including interest at 5.34% per annum through September 20, 2005.</p>					
	\$ 65,687	\$ -	\$ 43,206	\$ 22,481	\$ 22,481
<p>The Township agrees to purchase the Village of Stevensville's share of jointly owned equipment owned by the dissolved Tri-Unit Fire Board. Annual payments of \$18,622 will be made beginning May of 2003 through May of 2005.</p>					
	37,244	-	18,622	18,622	18,622
Total Governmental Activities - Primary Government	\$ 102,931	\$ -	\$ 61,828	\$ 41,103	\$ 41,103

ROYALTON TOWNSHIP
Notes to Financial Statements
March 31, 2005

NOTE 5 - LONG-TERM DEBT - Continued

Annual debt service requirements to maturity for the above obligations are as follows:

Year Ending March 31,	Business Activities		Governmental Activities	
	Principal	Interest	Principal	Interest
2006	\$ 700,000	\$ 228,979	\$ 41,103	\$ 352
2007	640,000	199,735	-	-
2008	275,000	181,250	-	-
2009	300,000	171,113	-	-
2010	275,000	159,753	-	-
2011-2015	1,495,000	609,331	-	-
2016-2020	1,270,000	297,693	-	-
2021-2024	775,000	69,725	-	-
Total	\$ 5,730,000	\$ 1,917,579	\$ 41,103	\$ 352

NOTE 6 - INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

The composition of interfund balances as of March 31, 2005, is as follows:

Due to/from other funds:

Receivable Fund		Payable Fund	Amount
General Fund	\$ 51,634	Public Welfare Millage	\$ 30,889
		Inspection	10,582
		Public Utility	8,409
		Tax	1,754
Total	\$ 51,634	Total	\$ 51,634

NOTE 7 - RESTRICTED ASSETS

Restricted assets at March 31, 2005, consist of \$443,995 of cash held at Berrien County. The restricted cash is used for construction in Royalton Township's Public Utility Fund. There is also \$901 of cash in the General Fund. That is restricted for cemetery expenditures.

NOTE 8 - DEFINED CONTRIBUTION RETIREMENT PLAN

The Township provides pension benefits to all of its full-time employees and elected officials through a defined contribution plan. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Employees are eligible to participate from the date of employment. As established by the Township Board, the Township contributes fifteen percent of employees' gross earnings and employees contribute a minimum of five percent, and a maximum of 10% of earnings. The Township's contributions for each employee (plus interest allocated to the employee's account) are fully vested immediately.

ROYALTON TOWNSHIP
Notes to Financial Statements
March 31, 2005

NOTE 8 - DEFINED CONTRIBUTION RETIREMENT PLAN - Continued

The Township's total payroll during the current year was \$306,680. The current year contribution was calculated based on covered payroll of \$235,197, resulting in an employer contribution of \$35,280 and employee contributions of \$14,373.

NOTE 9 - DEFERRED COMPENSATION PLAN

As of July 1, 2003, the Township offered a deferred compensation plan administered by ING Life Insurance and Annuity Company called the Royalton Township 457 Plan. Eligible employees may contribute 100% of their includible compensation up to limits set by law. There is no requirement for employer contributions. For the current year there were no employer contributions; employees' contributions totaled \$4,996.

NOTE 10 - IMPLEMENTATION OF NEW ACCOUNTING STANDARDS

As of and for the year ended March 31, 2005, the Township implemented the following Governmental Accounting Standards Board pronouncements:

Statements

- No. 33 - *Accounting and Financial Reporting for Nonexchange Transactions*
- No. 34 - *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*
- No. 36 - *Recipient Reporting for Certain Shared Nonexchange Revenues - An Amendment to GASB No. 33*
- No. 37 - *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus*
- No. 38 - *Certain Financial Statement Note Disclosures*

Interpretation

- No. 6 - *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*

The more significant of the changes required by the new standards include:

- Management's discussion and analysis;
- Basic financial statements that include:
 - Government-wide financial statements, prepared using the economic resources measurement focus and the accrual basis of accounting;
 - Fund financial statements, consisting of a series of statements that focus on a government's major governmental funds and enterprise funds;
 - Schedules to reconcile the fund financial statements to the government-wide financial statements;
 - Notes to the basic financial statements;
- Required supplementary information, including certain budgetary schedules.

ROYALTON TOWNSHIP
Notes to Financial Statements
March 31, 2005

NOTE 11 - SUMMARY DISCLOSURE OF SIGNIFICANT CONTINGENCIES

Certain claims, suits and complaints arising in the ordinary course of business have been filed or are pending against the Township. In the opinion of management and legal counsel, all such matters are covered by insurance or if not so covered, are without merit and, in any event, their ultimate resolution will not have a material effect on the Township's financial position or operations.

NOTE 12 - EXPENDITURES OVER BUDGET

P.A. 621 of 1978 Section 18, as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated. The approved General Fund budget of the Township was adopted at the function level. During the year ended March 31, 2005, the Township incurred expenditures in certain budgetary functions, which were in excess of the amount appropriated as follows:

		<u>Activity</u> <u>Appropriation</u>	<u>Activity</u> <u>Expenditures</u>	<u>Negative</u> <u>Budget Activity</u>
General Fund	Legislative	\$ 5,900	\$ 6,051	\$ (151)
	Public Works	15,500	29,080	(13,580)
	Debt Service	40,000	43,206	(3,206)
Inspection Fund		129,000	146,164	(17,164)

NOTE 13 - RISK MANAGEMENT

The Township is exposed to various risks of loss related to limited torts; theft of, damage to and destruction of assets; errors and omissions and natural disasters for which the Township carries commercial insurance. There have been no significant reductions in coverage from the prior year and settlements have not exceeded coverage in the past three years.

**ROYALTON TOWNSHIP
TRUST AND AGENCY FUND
Statement of Cash Receipts and Disbursements - Tax Collection Fund
For the Year Ended March 31, 2005**

Receipts:

Current property tax collections	\$ 4,649,577
Interest	<u>4,549</u>
 Total Receipts	 <u>\$ 4,654,126</u>

Disbursements:

Public schools	\$ 1,187,984
Berrien County	1,972,688
Other funds	775,486
Berrien County I.S.D.	406,006
Lake Michigan College	307,479
State of Michigan	5,998
Interest	<u>3,794</u>
 Total Disbursements	 <u>\$ 4,659,435</u>

Disbursements Over Receipts	\$ (5,309)
-----------------------------	------------

Cash - Beginning of Year	<u>7,063</u>
 CASH - END OF YEAR	 <u>\$ 1,754</u>

**ROYALTON TOWNSHIP
PROPRIETARY FUND
PUBLIC UTILITY FUND
Statement of Net Assets
For the Year Ended March 31, 2005**

	<u>Sewer Activity</u>	<u>Water Activity</u>	<u>Total</u>
Assets			
Current Assets:			
Cash and cash equivalents	\$ (747,218)	\$ 1,832,854	\$ 1,085,636
Certificates of deposit	-	187,454	187,454
Delinquent special assessment receivable	<u>1,960</u>	<u>40,032</u>	<u>41,992</u>
Total Current Assets	<u>\$ (745,258)</u>	<u>\$ 2,060,340</u>	<u>\$ 1,315,082</u>
Restricted Assets:			
Cash and cash equivalents	<u>\$ 7,377</u>	<u>\$ 436,618</u>	<u>\$ 443,995</u>
Noncurrent Assets:			
Plant, property, and equipment	\$ 5,588,623	\$ 3,485,105	\$ 9,073,728
Construction in process	-	2,111,686	2,111,686
Special assessment receivable	800	3,976,630	3,977,430
Sewer bond cost, net of \$54,960 accumulated amortization	5,292	-	5,292
Water bond cost, net of \$56,629 accumulated amortization	-	148,337	148,337
Sewer bond discount, net of \$42,644 accumulated amortization	4,106	-	4,106
Water bond discount, net of \$27,376 accumulated amortization	-	74,707	74,707
Accumulated depreciation	<u>(1,607,427)</u>	<u>(643,633)</u>	<u>(2,251,060)</u>
Total Noncurrent Assets	<u>\$ 3,991,394</u>	<u>\$ 9,152,832</u>	<u>\$ 13,144,226</u>
TOTAL ASSETS	<u>\$ 3,253,513</u>	<u>\$ 11,649,790</u>	<u>\$ 14,903,303</u>

	<u>Sewer Activity</u>	<u>Water Activity</u>	<u>Total</u>
Liabilities and Net Assets			
Current Liabilities:			
Current portion of bonds payable	\$ 500,000	\$ 175,000	\$ 675,000
Current portion of note payable	-	25,000	25,000
Accrued interest	18,409	83,616	102,025
Due to other governments	42,221	-	42,221
Due to other funds	8,409	-	8,409
	<u>569,039</u>	<u>283,616</u>	<u>852,655</u>
Total Current Liabilities			
Long-Term Liabilities:			
Bonds payable, net of current portion	\$ 415,000	\$ 4,540,000	\$ 4,955,000
Note payable, net of current portion	-	75,000	75,000
	<u>415,000</u>	<u>4,615,000</u>	<u>5,030,000</u>
Total Long-Term Liabilities			
Total Liabilities	<u>984,039</u>	<u>4,898,616</u>	<u>5,882,655</u>
Net Assets:			
Invested in capital assets, net of related debt	\$ 3,066,186	\$ 138,158	\$ 3,204,344
Restricted	7,377	436,618	443,995
Unrestricted	(804,089)	6,176,398	5,372,309
	<u>2,269,474</u>	<u>6,751,174</u>	<u>9,020,648</u>
TOTAL NET ASSETS			

**ROYALTON TOWNSHIP
PROPRIETARY FUND
PUBLIC UTILITY FUND**
Statement of Revenues, Expenses, and Changes in Net Assets
For the Year Ended March 31, 2005

	<u>Sewer Activity</u>	<u>Water Activity</u>	<u>Total</u>
Operating Revenues:			
Charges for services	\$ 603,756	\$ 195,536	\$ 799,292
Other	<u>15,305</u>	<u>11,396</u>	<u>26,701</u>
Total Operating Revenues	<u>\$ 619,061</u>	<u>\$ 206,932</u>	<u>\$ 825,993</u>
Operating Expenses:			
Sewer treatment charges	\$ 153,397	\$ -	\$ 153,397
Professional services	18,903	-	18,903
Salary and wages	15,660	-	15,660
Payroll taxes	1,198	-	1,198
Depreciation and amortization	124,191	102,580	226,771
Utilities	18,401	-	18,401
Supplies	5,289	2,241	7,530
Repairs and maintenance	18,282	465	18,747
Contribution to LMSWSTA	6,679	-	6,679
Miscellaneous	<u>2,539</u>	<u>4,137</u>	<u>6,676</u>
Total Operating Expenses	<u>\$ 364,539</u>	<u>\$ 109,423</u>	<u>\$ 473,962</u>
Operating Income	<u>\$ 254,522</u>	<u>\$ 97,509</u>	<u>\$ 352,031</u>
Nonoperating Revenues (Expenses):			
Interest income	\$ -	\$ 242,990	\$ 242,990
Interest expense	<u>(45,981)</u>	<u>(198,169)</u>	<u>(244,150)</u>
Total Nonoperating Revenues (Expenses)	<u>\$ (45,981)</u>	<u>\$ 44,821</u>	<u>\$ (1,160)</u>
Net Income	<u>\$ 208,541</u>	<u>\$ 142,330</u>	<u>\$ 350,871</u>
Depreciation on assets financed by contributed capital	<u>70,026</u>	<u>73,981</u>	<u>144,007</u>
Change in Net Assets	<u>\$ 278,567</u>	<u>\$ 216,311</u>	<u>\$ 494,878</u>
Total Net Assets - Beginning of Year	<u>1,990,907</u>	<u>6,534,863</u>	<u>8,525,770</u>
TOTAL NET ASSETS - END OF YEAR	<u>\$ 2,269,474</u>	<u>\$ 6,751,174</u>	<u>\$ 9,020,648</u>

**ROYALTON TOWNSHIP
PROPRIETARY FUND
PUBLIC UTILITY FUND
Statement of Cash Flows
For the Year Ended March 31, 2005**

	<u>Sewer Activity</u>	<u>Water Activity</u>	<u>Total</u>
Cash Flows From Operating Activities:			
Cash receipts from customers	\$ 620,814	\$ 725,372	\$ 1,346,186
Other payments	(9,200)	(9,311)	(18,511)
Payments to employees	(16,858)	-	(16,858)
Payments to suppliers	<u>(204,588)</u>	<u>(5,072)</u>	<u>(209,660)</u>
Net cash provided by operating activities	<u>\$ 390,168</u>	<u>\$ 710,989</u>	<u>\$ 1,101,157</u>
Cash Flows From Capital and Related Financing Activities:			
Interest paid on capital debt	\$ (55,586)	\$ (187,767)	\$ (243,353)
Principal paid on capital debt	(500,000)	(175,000)	(675,000)
Purchases of capital assets	<u>(55,031)</u>	<u>(2,006,686)</u>	<u>(2,061,717)</u>
Net cash used by capital and related financing activities	<u>\$ (610,617)</u>	<u>\$ (2,369,453)</u>	<u>\$ (2,980,070)</u>
Cash Flows From Investing Activities:			
Special assessment interest received	\$ -	\$ 206,556	\$ 206,556
Interest and dividends received	<u>-</u>	<u>36,434</u>	<u>36,434</u>
Net cash provided by investing activities	<u>\$ -</u>	<u>\$ 242,990</u>	<u>\$ 242,990</u>
Net decrease in cash and cash equivalents	\$ (220,449)	\$ (1,415,474)	\$ (1,635,923)
Balances - Beginning of Year	<u>(519,393)</u>	<u>3,872,400</u>	<u>3,353,007</u>
BALANCES - END OF YEAR	<u>\$ (739,842)</u>	<u>\$ 2,456,926</u>	<u>\$ 1,717,084</u>
Reconciliation of operating income to net cash provided by operating activities:			
Operating income	<u>\$ 254,523</u>	<u>\$ 97,508</u>	<u>\$ 352,031</u>
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation expense	\$ 124,190	\$ 102,580	\$ 226,770
(Increase) decrease in:			
Accounts receivable	1,753	518,440	520,193
Increase (decrease) in:			
Accounts payable	2,527	-	2,527
Due to other funds	<u>7,175</u>	<u>(7,539)</u>	<u>(364)</u>
Total Adjustments	<u>\$ 135,645</u>	<u>\$ 613,481</u>	<u>\$ 749,126</u>
Net cash provided by operating activities	<u>\$ 390,168</u>	<u>\$ 710,989</u>	<u>\$ 1,101,157</u>

ROYALTON TOWNSHIP
Schedule of Indebtedness - Refunding Bonds
March 31, 2005

County of Berrien, State of Michigan
 Berrien County Sewage Disposal System No. 20
 Refunding Bonds (Royalton Township)

\$4,675,000

ISSUE DATED JANUARY 1, 1994 IN THE AMOUNT OF

<u>Year Ending</u> <u>March 31,</u>	<u>Interest</u> <u>Rate</u>	<u>Interest</u> <u>Due</u>	<u>Principal</u> <u>Due May 1,</u>	<u>Total</u>
2006	4.750%	\$ 32,210	\$ 500,000	\$ 532,210
2007	4.900%	10,167	415,000	425,167
		<u>\$ 42,377</u>	<u>\$ 915,000</u>	<u>\$ 957,377</u>

Interest on the above bonds is payable semi-annually at the indicated rate on May 1 and November 1.

ROYALTON TOWNSHIP
Schedule of Indebtedness - 2003 Project Bonds
March 31, 2005

County of Berrien, State of Michigan
 Berrien County Water Supply System No. 25
 Project Bonds (Royalton Township)

ISSUE DATED JANUARY 1, 2004 IN THE AMOUNT OF

\$2,600,000

<u>Year Ending</u> <u>March 31,</u>	<u>Interest</u> <u>Rate</u>	<u>Interest</u> <u>Due</u>	<u>Principal</u> <u>Due May 1,</u>	<u>Total</u>
2006	2.00%	\$ 92,838	\$ 50,000	\$ 142,838
2007	2.00%	91,587	75,000	166,587
2008	2.00%	89,838	100,000	189,838
2009	2.40%	87,637	100,000	187,637
2010	2.70%	85,088	100,000	185,088
2011	3.00%	82,237	100,000	182,237
2012	3.15%	78,769	125,000	203,769
2013	3.35%	74,706	125,000	199,706
2014	3.40%	70,487	125,000	195,487
2015	3.55%	66,144	125,000	191,144
2016	3.70%	61,150	150,000	211,150
2017	3.80%	55,525	150,000	205,525
2018	3.90%	49,750	150,000	199,750
2019	4.00%	43,825	150,000	193,825
2020	4.10%	37,238	175,000	212,238
2021	4.20%	29,975	175,000	204,975
2022	4.30%	22,000	200,000	222,000
2023	4.40%	13,300	200,000	213,300
2024	4.45%	4,450	200,000	204,450
		<u>\$ 1,136,544</u>	<u>\$ 2,575,000</u>	<u>\$ 3,711,544</u>

Interest on the above bonds is payable semi-annually at the indicated rate on May 1 and November 1.

ROYALTON TOWNSHIP
Schedule of Indebtedness - 1988 Extension
March 31, 2005

County of Berrien, State of Michigan
 Berrien County Water Supply System No. 20
 Bonds (Royalton Township), Series 1994

ISSUE DATED OCTOBER 1, 1994 IN THE AMOUNT OF

\$1,195,000

<u>Year Ending March 31,</u>	<u>Interest Rate</u>	<u>Interest Due</u>	<u>Principal Due May 1,</u>	<u>Total</u>
2006	5.400%	\$ 39,331	\$ 50,000	\$ 89,331
2007	5.500%	36,606	50,000	86,606
2008	5.625%	33,825	50,000	83,825
2009	5.750%	30,263	75,000	105,263
2010	5.875%	25,903	75,000	100,903
2011	6.000%	21,450	75,000	96,450
2012	6.000%	16,950	75,000	91,950
2013	6.000%	12,450	75,000	87,450
2014	6.000%	7,950	75,000	82,950
2015	6.000%	2,850	95,000	97,850
		<u>\$ 227,578</u>	<u>\$ 695,000</u>	<u>\$ 922,578</u>

Interest on the above bonds is payable semi-annually at the indicated rate on May 1 and November 1.

ROYALTON TOWNSHIP
Schedule of Indebtedness - 1998 Project Bonds
March 31, 2005

County of Berrien, State of Michigan
 Berrien County Water Supply System No. 23
 Project Bonds (Royalton Township)

ISSUE DATED JULY 1, 1998 IN THE AMOUNT OF

\$1,820,000

<u>Year Ending March 31,</u>	<u>Interest Rate</u>	<u>Interest Due</u>	<u>Principal Due May 1,</u>	<u>Total</u>
2006	4.30%	\$ 64,600	\$ 75,000	\$ 139,600
2007	4.30%	61,375	75,000	136,375
2008	4.35%	57,587	100,000	157,587
2009	4.40%	53,213	100,000	153,213
2010	4.50%	48,762	100,000	148,762
2011	4.55%	44,238	100,000	144,238
2012	4.55%	39,687	100,000	139,687
2013	4.60%	35,113	100,000	135,113
2014	4.65%	30,487	100,000	130,487
2015	4.70%	25,813	100,000	125,813
2016	4.70%	21,112	100,000	121,112
2017	4.75%	15,794	125,000	140,794
2018	4.75%	9,856	125,000	134,856
2019	4.75%	3,443	145,000	148,443
		<u>\$ 511,080</u>	<u>\$ 1,445,000</u>	<u>\$ 1,956,080</u>

Interest on the above bonds is payable semi-annually at the indicated rate on May 1 and November 1.

ROYALTON TOWNSHIP
Schedule of Indebtedness - 2000 Installment Note
March 31, 2005

<u>Year Ended March 31,</u>	<u>Interest Rate</u>	<u>Annual Debt Service</u>	<u>Interest</u>	<u>Principal</u>	<u>Balance</u>
2006	5.34%	\$ 22,833	\$ 352	\$ 22,481	-

Proceeds used for addition to township hall and remodeling of existing building. Payments of \$3,805 including interest at 5.34% are due monthly through September 20, 2005.

Gerbel & Company, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

Fifth Third Bank Building ■ 4th Floor ■ 830 Pleasant Street ■ P.O. Box 44 ■ St. Joseph, Michigan 49085-0044

May 12, 2005

Township Board
Royalton Township
Berrien County, Michigan

Dear Township Board Members:

In planning and performing our audit of the financial statements of Royalton Township for the year ended March 31, 2005, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements, but not to provide assurance on the internal control structure. However, we noted certain matters we have included as recommendations that may be beneficial to the operation of the Township.

In connection with our audit of the books and records of Royalton Township for the year ending March 31, 2005, we offer the following comments and recommendations:

1. The Township does not have a computer backup system. The Township is at great risk of losing all of the information on their computers. We recommend the Board create a disaster recovery plan and backup system for their computers. This should be included in the policy manual.
2. Currently no computers have passwords to protect against unauthorized access. This is a risk since there is private information on the computers (social security numbers, bank numbers, accounting software, etc.). Every computer should contain a password. These passwords should be known to the authorized user and management. Access to the programs should be restricted to the authorized user and management.
3. The Township should mark all keys "DO NOT DUPLICATE". Currently additional keys can be duplicated and disseminated without Township knowledge. The Township should also prepare and maintain a key log to document who has possession of keys and to which buildings. This will also ensure return of all keys upon an employee's termination of employment.
4. Currently there is no inventory kept on items in the maintenance department. These items should be inventoried to know what items are on hand. The policy procedure manual states that the clerk should keep an up-to-date inventory of items over \$100; we recommend raising this limit to \$500.
5. While examining the Water and Sewer Funds receipt books we noticed that there were multiple instances where the receipts were not used according to their receipt number. We even found one instance where a receipt was issued in May and the preceding receipt numbers were issued in December. Not following the receipt numbers in order creates a hardship on record keeping. Also, this may provide the opportunity for theft since in this instance the employee would have seven months to conceal the theft.
6. All expenditures that occur in the petty cash account need to have a receipt made out by the individual and signed by the custodian and management. Per the Employee Procedure Handbook, "A copy of each receipt and a receipt signed by the recipient of a petty cash disbursement shall accompany all disbursements".

Right. On time.

PHONE: 269-983-0534 ■ FAX: 269-983-7050 ■ EMAIL: gerbel@parrett.net ■ WEB SITE: www.gerbel.com

7. The petty cash should be maintained on a regular basis and any deficiencies need to be accounted for. At year end, the petty cash was short by approximately 10% of its total value.
8. Only the custodian should have access to the petty cash account.
9. All invoices need to have the following when paid: date received, signature of who received the invoice, account that the expenditure will be posted to, check number, date paid and management's signature authorizing the payment. We noticed that many invoices were missing one or more of these requirements.
10. The Board should adopt a capitalization policy for fixed assets. We would recommend that assets purchased with a life of two years or longer and a cost of \$500 or more be capitalized as a fixed asset, with items under those thresholds being expensed.

We appreciate the courtesy and cooperation extended to us by the management and employees of the Township and trust that these comments and suggestions will be received in the spirit of cooperation in which they are offered.

This report is intended solely for the information and use of Royalton Township's Board. This restriction is not intended to limit distribution of this report, which is a matter of public record.

If we can be of any help in implementing any of these suggestions, or if you have any questions regarding these or any other matters, please feel free to contact us.

Very truly yours,

Gerbel & Company, P.C.

GERBEL & COMPANY, P.C.
Certified Public Accountants